GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:10
ANSWERED ON:17.10.2008
LOANS OF FARMERS FROM PRIVATE MONEY LENDERS
Sai Shri Nand Kumar;Singh Shri Sugrib

Will the Minister of FINANCE be pleased to state:

(a) whether the farmers borrow more loans from the private money lenders than from the public sector banks to fulfil their needs;

(b) if so, the details thereof and the reasons therefor;

(c) whether the private money lenders are providing loans at higher rates in comparison to the public sector banks;

(d) if so, the details thereof;

(e) whether the Government has conducted any study to find out the reasons for such a trend;

(f) if so, the findings thereof; and

(g) the remedial measures taken by the Government in this regard?

Answer

THE MINISTER OF FINANCE (SHRI P.CHIDAMBARAM)

(a) to (g) : A Statement is laid on the Table of the Lok Sabha.

Statement referred to in reply to Parts (a) to (g) of Lok Sabha Starred Question No. 10 to be answered on 17th October, 2008, regarding Loans of Farmers from Private Money Lenders, tabled by Shri Sugrib Singh and Shri Nand Kumar Sai.

(a) & (b) : As per National Sample Survey Organisation data on 'Indebtedness of Farmer Households' (2003), 51.4% of farmer households do not access credit, either from institutional or non-institutional sources. 27.30% of total farm households are indebted to formal sources and 21.3% to informal sources, including moneylenders.

(c) to (f) : Reserve Bank of India (RBI) set-up a Technical Group (S.C. Gupta Committee) to review the efficacy of the existing legislative framework that governs money-lending as also the enforcement machinery in different States and make recommendations for its improvement. This Technical Group has observed that the rates of interest charged by the money lenders ranged between 12 per cent to 150 per cent per annum although the average rate of interest ranged from 18 per cent to 36 per cent per annum.

The Technical Group has cited various reasons for continued dependence on money lenders viz.
1. Limited outreach of formal credit institutions,
2. Reluctance of the banks to deal with marginal farmers,
3. Money lenders do business at "doorstep" and respect privacy,
4. Money lenders lend for consumption purposes without hesitation, and
5. Inadequate and delayed credit by banks.

(g) : The Government of India has taken the following steps to ensure increased accessibility of credit for farmers :-
The Government of India (GoI) is providing interest subvention to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Banks on their own funds and concessional refinance to Cooperative Banks and RRBs since Kharif 2006-07 to ensure Short Term crop loans upto Rs.3 lakh to farmers at interest rate of 7% per annum at the ground level. This scheme continues for the years 2007-08 and 2008-09.
The flow of agricultural credit has tripled in the last four years from Rs.86,981 crore in 2003-04 to Rs.2,43,570 crore in 2007-08.
Banks have simplified the procedure for documentation for agricultural loans.
Loans upto Rs.50,000/- have been made collateral and margin free and the requirement of 'No Dues Certificate' has been dispensed with.
Banks have been advised to provide all eligible farmers with Kisan Credit Cards.
Banks have been instructed to achieve financial outreach through provision of a General Credit Card to households, to open "No Frills" accounts with limited overdraft facilities, to extend financial outreach by utilizing services of Civil Society Organisation like Farmers Clubs, Non Governmental Organisations (NGOs), Post Offices as Business Facilitator/Business Correspondent Model, etc.